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C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 000957

SIPDIS

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STATE FOR SCA/CEN (PERRY)

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TAGS: [EPET](#) [ECON](#) [PREL](#) [TX](#)

SUBJECT: CALCULATING THE IMPACT OF THE GAZPROM-TURKMENISTAN
NATURAL GAS DEAL

REF: A. A) ASHGABAT 932

[¶](#)B. B) ASHGABAT 884

[¶](#)C. C) ASHGABAT 34

Classified By: Charge Jennifer Brush for reasons 1.4 (B/D)

Summary

[¶](#)1. (C) Embassy estimates Turkmenistan will earn \$3.6 billion in 2006 natural gas revenues, and based on the new agreement with Gazprom, will receive \$5.9 billion in 2007 natural gas revenues. Turkmenistan will likely attempt to increase gas prices for Iran from the current rate of \$65/tcm to a rate approaching Gazprom's newly-agreed rate of \$100/tcm. The Turkish Ambassador, apparently viewing his mission to jumpstart the Trans-Caspian natural gas pipeline a failure, has requested reassignment. A Ukrainian Embassy observer of the negotiations expressed dismay regarding the Gazprom agreement, but seemed resigned to the geopolitical realities of Ukraine's dependence on Gazprom (Russian) energy supplies.

End Summary.

Counting the Dollars

[¶](#)2. (U) Gazprom's recently signed agreement to purchase a total of 162 billion cubic meters (bcm) of natural gas at \$100/tcm (see reftel A) from Turkmenistan from the fourth quarter of 2006 through the end of 2009 will significantly boost Turkmenistan President Niyazov's foreign currency revenues. According to embassy estimates, and excluding Ukrainian barter payments, Turkmenistan should have received slightly over \$1.7 billion in natural gas revenue in 2005. Embassy estimates that Turkmenistan should generate \$3.6 billion in natural gas revenue in 2006. Projecting the Gazprom arrangements and current prices paid by Iran forward to 2007, Turkmenistan should receive \$5.9 billion in natural gas revenue in 2007. As a result, Turkmenistan's anticipated 2007 natural gas revenues should increase by more than \$2.2 billion, a 61% jump over 2006 figures.

Is it Iran's Turn to Pay More?

[¶](#)3. (C) Embassy estimates for the fourth quarter of 2006 and beyond could be affected by any increase in the price Iran pays for Turkmenistan's natural gas. Currently, Iran pays \$65/tcm - the same rate which Gazprom is paying through the

end of September 2006. Although Turkmenistani officials claim that oil and gas issues were not discussed during Iranian President Ahmadinejad's July visit to Turkmenistan, Iran is unlikely to enjoy a sustained price discount vis-a-vis Gazprom. (Note: An energy analyst told emboff September 12 that an Iranian Ministry of Petroleum official confided to her that Ahmadinejad's talking points for the July meeting with Niyazov included oil and gas issues. He also advised her of Iranian interest in working with Russia to squeeze the United States and Europe out of the Caspian. End note.) A Ukrainian Embassy observer of the natural gas negotiations advised emboffs September 7 that Iran's price will soon rise to \$75/tcm.

¶4. (SBU) Iran's purchase of natural gas from Turkmenistan is slated to increase from 8 bcm in 2006 to 14 bcm in 2007. If Iran balks at higher prices for Turkmenistan's natural gas, the existing natural gas infrastructure leading out of Turkmenistan could not currently accommodate a full redirection of the Iranian shipments north to Russia. Given lingering doubts regarding future Trans-Caspian, Trans-Afghan and Chinese natural gas pipelines from Turkmenistan, Niyazov's decision to sign a three-year deal with Gazprom and to embrace Russia publicly as a "first priority" partner may encourage Gazprom (and the Russian government) to act on prior commitments to upgrade and/or expand the CAC pipeline network to increase capacity. (Note: The local Gazprom representative in Turkmenistan returned to Moscow after the signing of the natural gas agreement. Embassy plans to explore enhanced capacity issues with the Gazprom representative upon his return later this month. End note.)

Repercussions for the Turks

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¶5. (C) In a meeting after the Gazprom-Turkmenistan deal had been signed, Turkish Ambassador Hakkı Akil told the Charge that with Niyazov's decision to route the majority of Turkmen natural gas exports through the Gazprom network, Turkey would become more reliant on Russia, through the existing Bluestream Pipeline, for its natural gas supplies. "We will suffer for having to depend on the Gazprom monopoly, rather than competitive multiple pipelines," he said. As a result of Niyazov's apparent abandonment of the Trans-Caspian natural gas pipeline proposal, Akil told Charge he recently requested reassignment. When Akil first arrived, he told DCM he was sent specifically to jumpstart the Trans-Caspian Pipeline negotiations. (Comment: Turkmen natural gas may also be reaching Turkey through the back door. In contravention of the agreement governing Turkmenistan's natural gas sales to Iran (see reftel B), there is some belief that Iran is exporting Turkmenistan's natural gas to Turkey at market rates and thereby generating a substantial profit margin for Tehran. End comment.)

A Ukrainian View on the Natural Gas Deal

¶6. (C) Ukrainian Embassy First Secretary Igor Roman expressed dismay and resignation at news of the Gazprom agreement. Roman outlined efforts by the Ukrainian Energy Minister to influence the outcome of the natural gas deal between Gazprom and Turkmenistan, but couched his disappointment in the reality of Ukraine's reliance on its western and eastern neighbors. However, he added that the Ukrainian Energy Minister may attend Ashgabat's September 20-21 oil and gas conference and hinted at natural gas discussions with Turkmenistan officials on the sidelines of the conference. In an earlier conversation, Roman had said that Ukraine would only send a "team of experts" to the conference to discuss natural gas exploration and other areas of interest.

Comment

¶ 7. (SBU) If the Gazprom agreement holds, and Turkmenistan can fulfill its natural gas commitments to Russia and Iran through the end of 2009, President Niyazov will have at least \$5.6 billion more revenue than pre-existing prices would have generated. In accordance with past practice, the majority of increased natural gas revenue should be deposited into the offshore Foreign Exchange Reserve Fund (see reftel C). This fund lacks transparency and has been used as a piggybank for prestige projects and other presidential prerogatives.

¶ 8. (SBU) The increased revenues accruing from the Gazprom deal will not be redirected to much-needed education, health care, pensions, infrastructure, and other social programs. Rather, more revenues means more foreign construction of grandiose memorials, public buildings and towering apartment buildings, with the end result that the profits derived from Turkmenistan's considerable, though ultimately finite, resources will end up in foreign businessmen's pockets; and the social standards in Turkmenistan will continue to deteriorate. End Comment.

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